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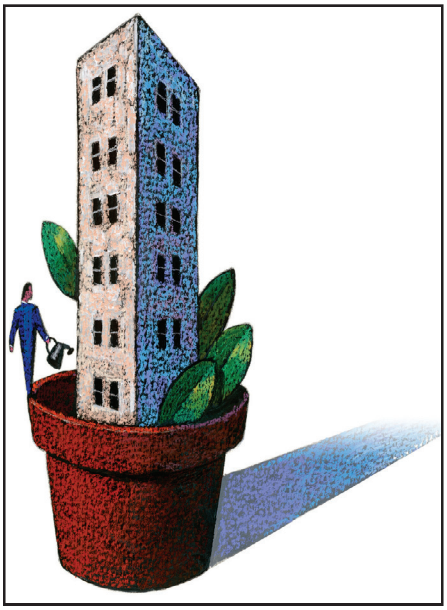
Firm Growth

Acquisition Guidance to Help You Expand Your Business

From a growth perspective, acquisitions can provide a firm with a wider platform for broadening its areas of expertise, as well as its marketing and public relations capabilities. A combination of firms can be the result of either an acquisition or a merger. Though this article focuses on acquisitions, the information is applicable for mergers.

Larger clients may be attracted to the platform of a larger firm, which can be more interesting, too, for referral sources that work with larger clients. From a career development perspective, additional client needs and revenues create more opportunity for developing managers and principals into partners. And the injection of niche and specialized services from another firm can increase a firm's desirability with current and future clients.

There are a number of reasons to choose the acquisition route: excess capacity and capability; need for additional offices and locations; expanded services and career development for new partners; a jump-start on revenue enhancement programs; and more. New players, new challenges and new clients do make a difference in your firm as it evolves. The benefits include operational, organizational and personal development.



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Plan, Plan, Plan

Whether you're a sole practitioner or part of a multi-partner firm, it's imperative to create a dynamic strategic plan that is agreed upon by all key team members. If this is your first acquisition, or it's been a number of years since your last acquisition, consider getting some assistance with your plan from consultants, attorneys and other CPAs. CalCPA's Management of an Accounting Practice Committee has various resources and contacts available at *www.calcpa.org/Answerline*.

Keep the following in mind as you develop your plan:

- Map out criteria of your ideal acquisition—size, location, services, talent, industries served, etc.
- List what you and your firm will bring to the new arrangement, even if it's only funding or talent.
- Be realistic about how long the process takes. This is dependent upon many factors, including existing workload, upcoming or in-process tax season(s), seller's lease, seller's retirement, compensation discussions and more. The timeframe can range from several months to two years or more.
- Keep it simple, yet comprehensive. It's important to focus on both strategic and detailed tactical plans. What will this mean to our growth? What can we do to reach out to our clients and resources to enhance our brand? What can we do to leverage our new size to grow more rapidly? Keep it simple by focusing on details that are critical to the acquisition. If you allow yourself to become distracted, the deal could be delayed or lost. Certain specific operational aspects can be handled later.
- Address the next three to nine months—personnel evaluations, client retention, client transitions, public relations to publicize the event—plus the next five years in terms of development of new partners, new services, other offices and expanded services within old and new clients. Plan to let under-producing clients transition.
- Include your investment costs and accept that there could be significant time, energy, opportunity costs and actual costs before you close the deal. Actual costs could include broker fees, professional resource fees, moving expenses, additional personnel, IT advancements, etc. Opportunity costs include time invested on the project versus working on existing clients, plus the strategic and administrative aspects of the current and future firm.
- Prepare firm budgets and timeframes, set benchmarks, establish goals for everyone in the firm and begin to refine the firm culture to include the expanded client base and new team players.
- Create a team responsible for monitoring the process, benchmarks and objectives set out in the plan. Team members can include firm employees as well as outside consultants, attorneys or CPAs.

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Other tips to a smooth acquisition process that buyers have shared include:

- Have everyone on the team participate.
- Engage good professional support.
- Ask many questions.
- Learn from others' successes and failures.
- Communicate openly with candidates.
- Assure that you and your acquisition candidate are ready to commit.
- Ensure cultures of the firms are compatible with each other.
- Work and rework the plan. Factors change—you and your plan must be flexible enough to change, too.

Making the Acquisition a Reality

With plan in place and the time right for an acquisition, consider experienced professionals—brokers, investment bankers, attorneys, consultants and other CPAs—to assist you with the search for a practitioner or firm. You can go it alone, but realize that means you will be more active in the search, which will add to your opportunity costs as it will require additional time and energy.

As acquisition prospects come in, be sure to conduct visits or explorations. They will help you refine your criteria and, in most cases, help you come to a better understanding of what you need and can absorb. This part of the process is where you learn so much more about the market, yourself and your firm.

Most firms have found they would have never imagined what they discovered about themselves, such as how to:

- Be on the same page with partners and others to avoid misunderstandings that can interfere with deal progress.
- Optimize staff skills and improve staff efficiency.
- Serve existing clients better and create opportunities for the firm.
- Bring partners' unique skill sets, personal characteristics and talents to the firm, acknowledging that everyone is vitally important to the success of the firm.
- Build a creative, collaborative and energized environment for all firm members to enjoy.

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Working with Chosen Candidates

When you choose a firm as a possible acquisition candidate, serious "dating" begins. This will require a confidentiality agreement, additional input from your resources about protocol for communicating and interacting with the seller or, if you're the seller, with the buyer and how to maintain a professional approach. Even with a confidentiality agreement, all information is not available for discussion until a signed letter of intent is in place. This creates a non-binding contract outlining details of the transaction from both perspectives, including compensation, purchase or merger details, retirement, new client incentives, personnel details, move-in costs and what price or multiple is being paid for the acquisition.

Due diligence becomes an important activity for both parties. This includes a financial review of both and, in many cases, due diligence about financial, operational and strategic capabilities and opportunities. If the seller is to be paid on retention of clients, the seller must make sure that the buyer has the wherewithal or has defined a plan to achieve the seller's goals. Other areas of investigation:

- Assess human resources and staff talent.
- Review clients and work performed.
- Outline potential client growth and strategic opportunities that may come with this new association.
- Develop and review the transition plan and what it will take in money, time and energy to make it work.

A sophisticated seller may also investigate the buyer's succession planning program for assurance about specific plans if something happens to one or more key players. While due diligence is being performed, legal documents will be created to meet the specialized aspects of the transaction, including:

- Retirement timing of individuals or buy-out of clients.
- Relocation timing with specific relevant data and arrangements.
- Incentives if the seller stays on as part of the new landscape.
- Definition of how seller's work in process and accounts receivables will be handled.
- Additional responsibilities the seller may have in helping with retention.
- Employment agreements for remaining senior team members.

Essential to this process is the continued review and management of the plan for the next 18 months. Begin your planning before the transaction is scheduled to close and before everyone will be in new spots. Otherwise, you could lose important timing, marketing, client retention activities and—especially—public relations.

Eyes Wide Open

Growth through referrals and expanded services may have served you well, however, acquisitions, mergers and combinations can dramatically alter the landscape of a firm resulting in a bounty of new opportunities. A growth and development strategy is exciting, challenging and complex. Required are new strategic and operational actions, a unique approach and a holistic mindset to create a balanced, vibrant, profitable value model that is always creating opportunity for the future.

To be successful, it is essential to plan well and that everyone is committed. With these factors in alignment, great success for all involved can be the result. CPA

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